

Opportunities and challenges for the sustained development of Brazil

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Recent performance is outstanding and future prospects are positive. In a world of low growth, Brazil is a strategic destination for investments. This brings opportunities and challenges. For that, **Brazil must:**

Consolidate:

- ✓ Growth, creating wealth and economic inclusion
- ✓ An economic policy based on stability, resilience and confidence-building

Foster:

- ✓ Investment, innovation and capacity-building
- ✓ Long-term development policy, more domestic savings and financing for the long term

The recent past:

Growth and economic inclusion

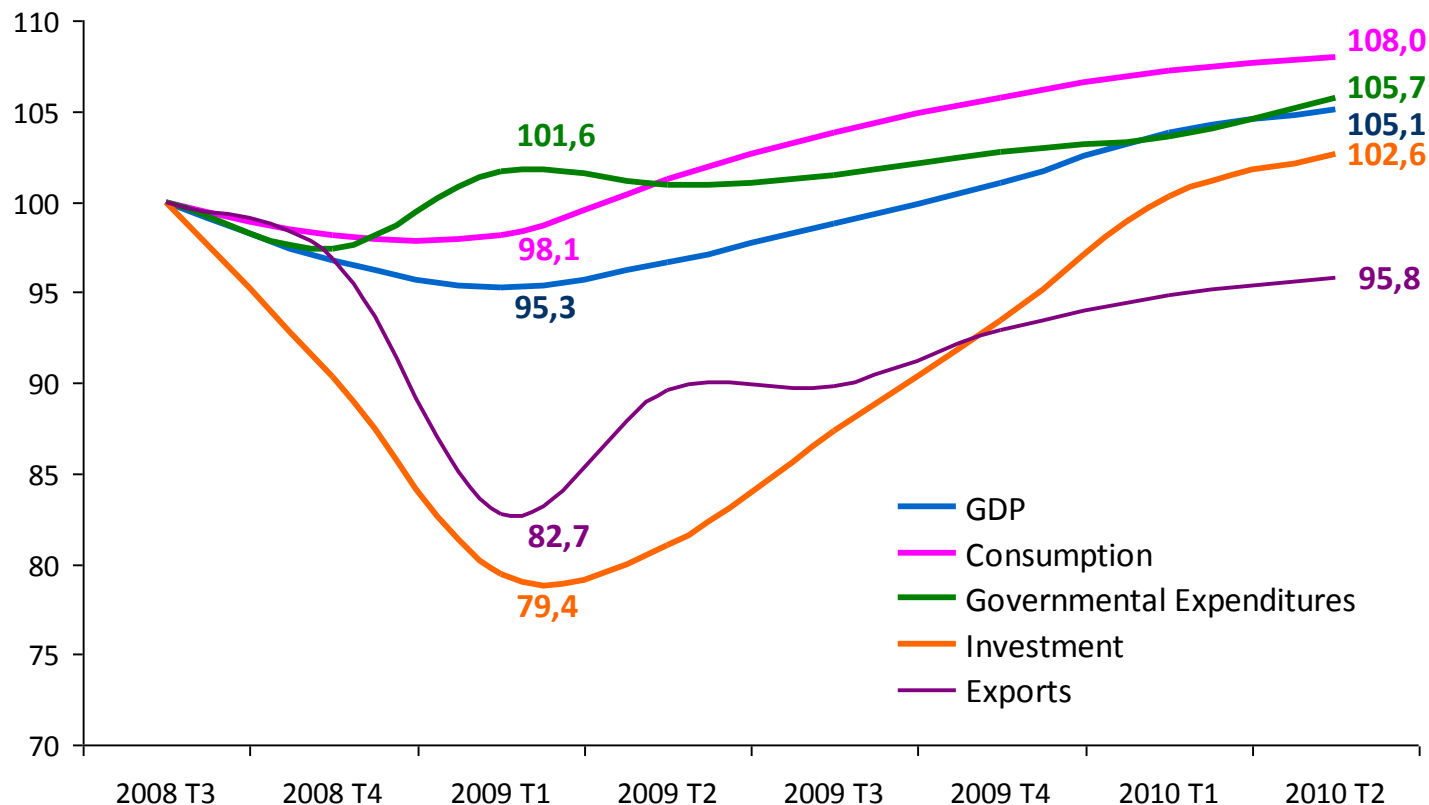
- In the West, growth is not expected to resume soon. The available liquidity will be searching for reliable investment destinations
- The positive growth prospects of Asia growth implies:
 - Fierce competition in markets.
 - Inputs to fuel further growth
- Internationally, efforts in macroeconomic policy coordination are significant. But, for competition and job related reasons, States are also moving towards defending national interests.

The economy has dealt well with the crisis.

2010 growth: 7.7% ; 2010-2014: 5% p.y.

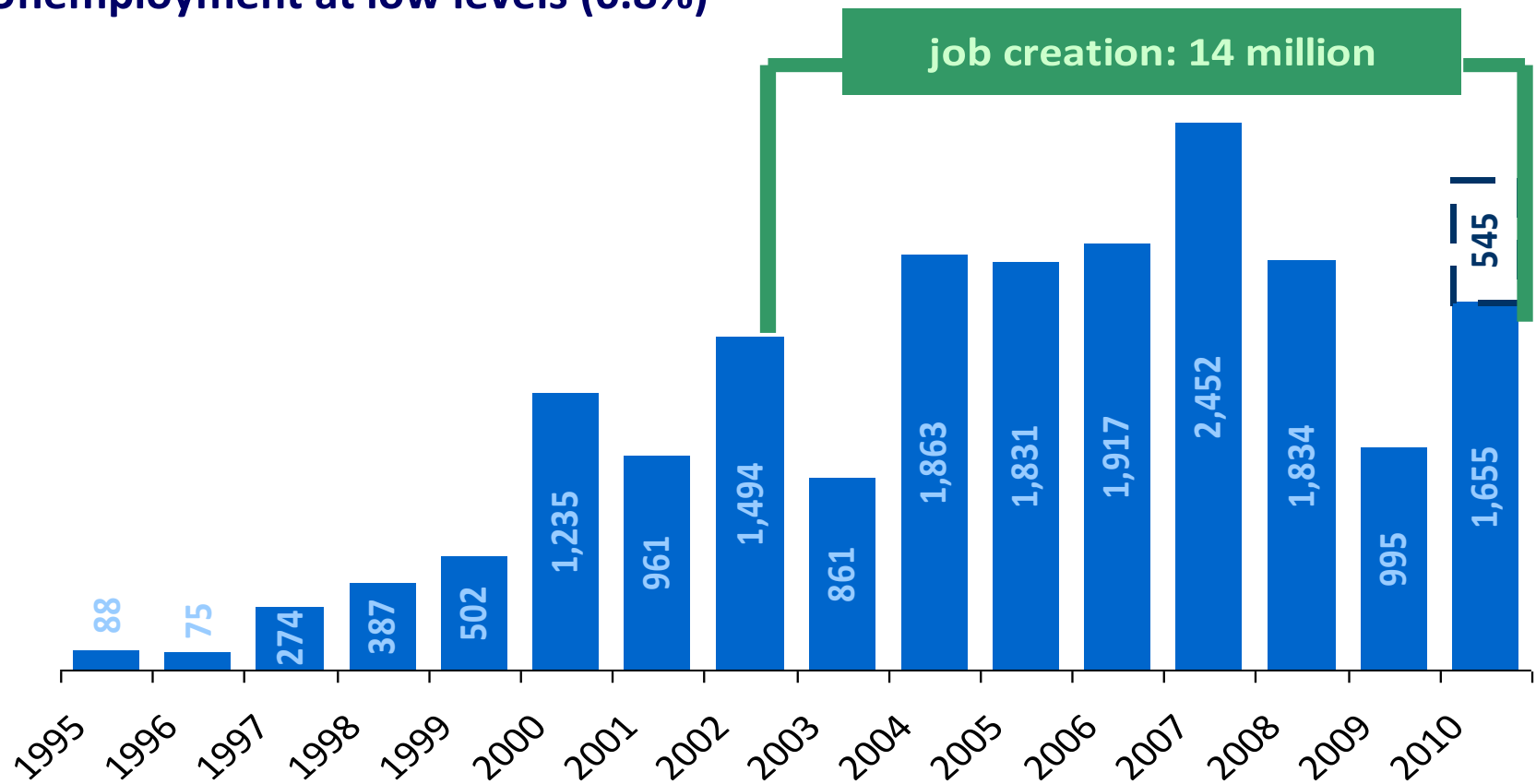
- ✓ The safeguard: household consumption and government expenditures
- ✓ The outstanding figure: investment plunge and rapid comeback
- ✓ Exports are still below pre-crisis levels.

GDP and Demand components (index 3T/08=100)



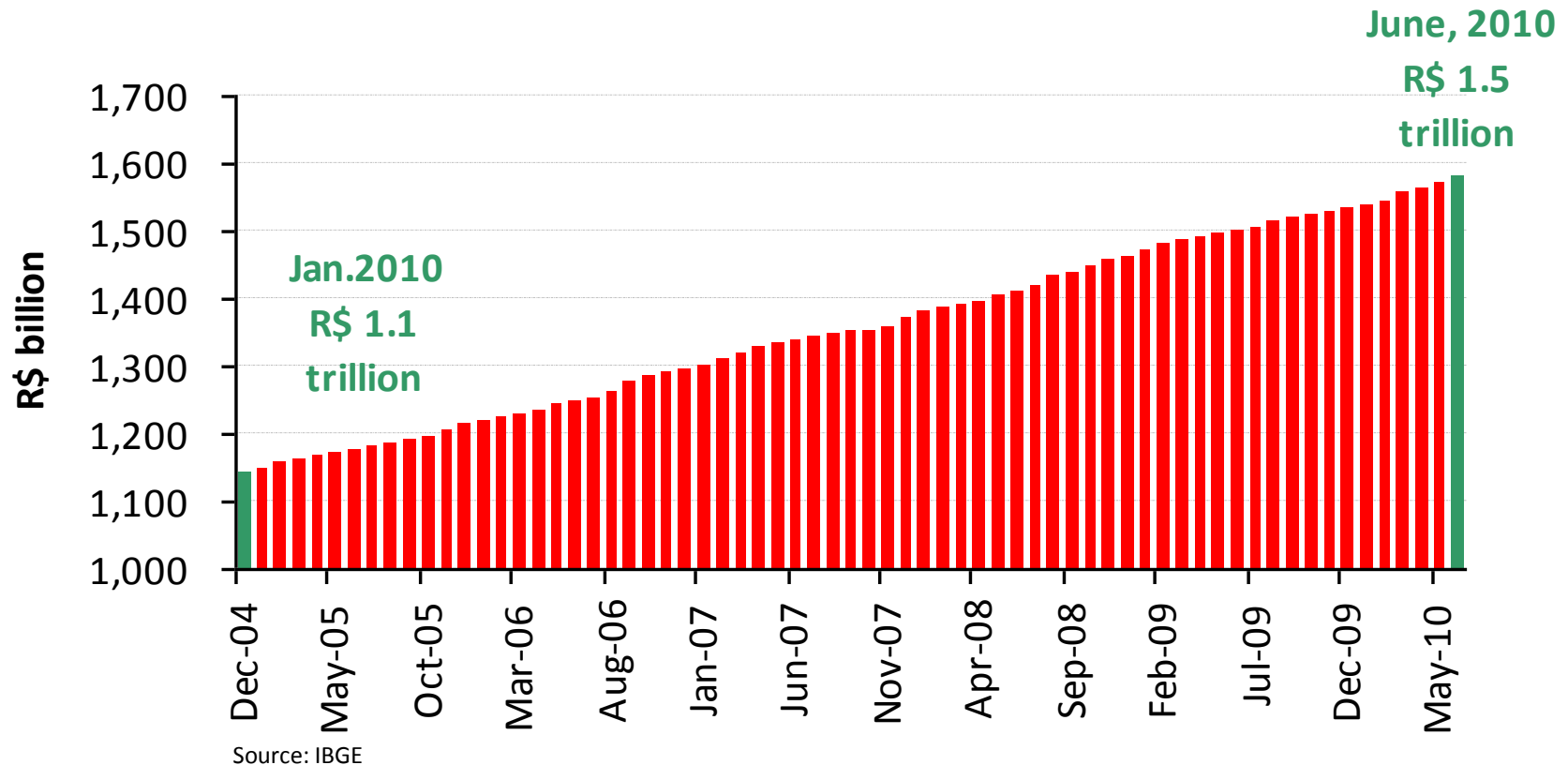
The outstanding feature: growth with expressive job creation

- ✓ 2009: despite weak performance, labor market was resilient
- ✓ Significant poverty reduction (from 35.2% in 2001 to 21.4% in 2009)
- ✓ Unemployment at low levels (6.8%)



A steady growth in wages has contributed to the expansion of the domestic market

Total Wage Payroll - 12 months to date
Inflation adjusted (R\$ June/2010)



Increase in personal income may support the sustained expansion of credit

...leading to economic inclusion & social change BNDES

The share of classes C, D, E in National Income went from 49% to 60 %

The Share of Social Groups in National Income %



Economic policy:
stability, resilience and confidence-building

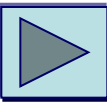
✓ Targeting Inflation :

- Monetary policy has sustained and increased confidence
- The neutral interest rate is in the process of reduction



✓ Stable fiscal policy (Primary Surplus Target):

- Declining Gross and Net Debt/GDP



✓ Flexible exchange rate and accumulation of reserves:

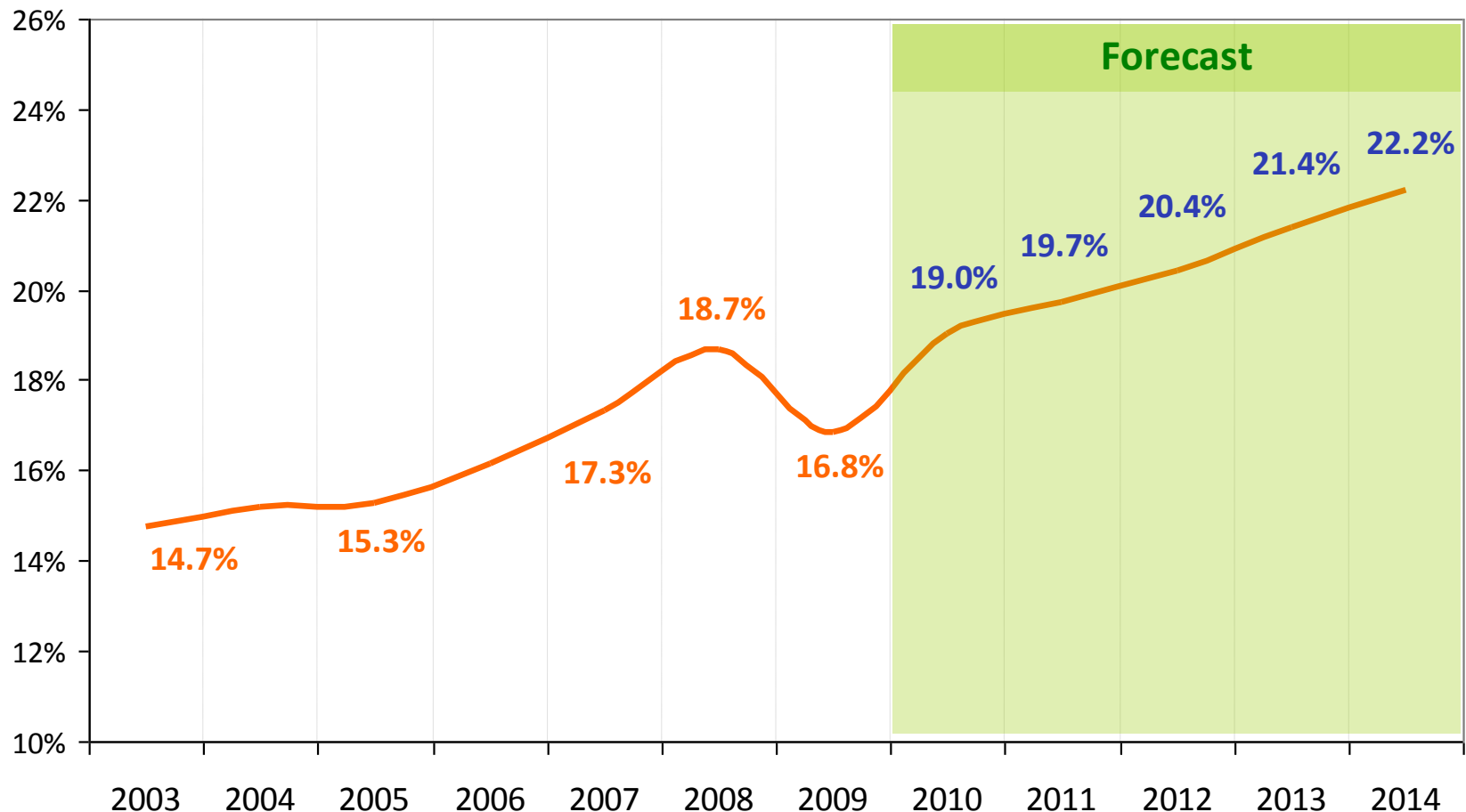
- International reserves are an insurance against external shocks
- Financial authorities are aware of FX volatility. They did, do and will act to prevent negative impacts



**Investment, Innovation and
Capacity-building:
positive prospects, but improvements
are needed**

Investment/GDP may be above 22% in 2014

Brazil: Investment as % GDP



... as corporate and public investment plans are robust and on the rise

Sectors	US\$ billion		Growth
	2005-8 (recorded)	2010-13 (forecast)	Implicit p.a. 2010-13 (%)
Infrastructure	111	172	9.3
Industry	174	305	11.8
Housing	191	258	6.3
Total	476	736	9.1

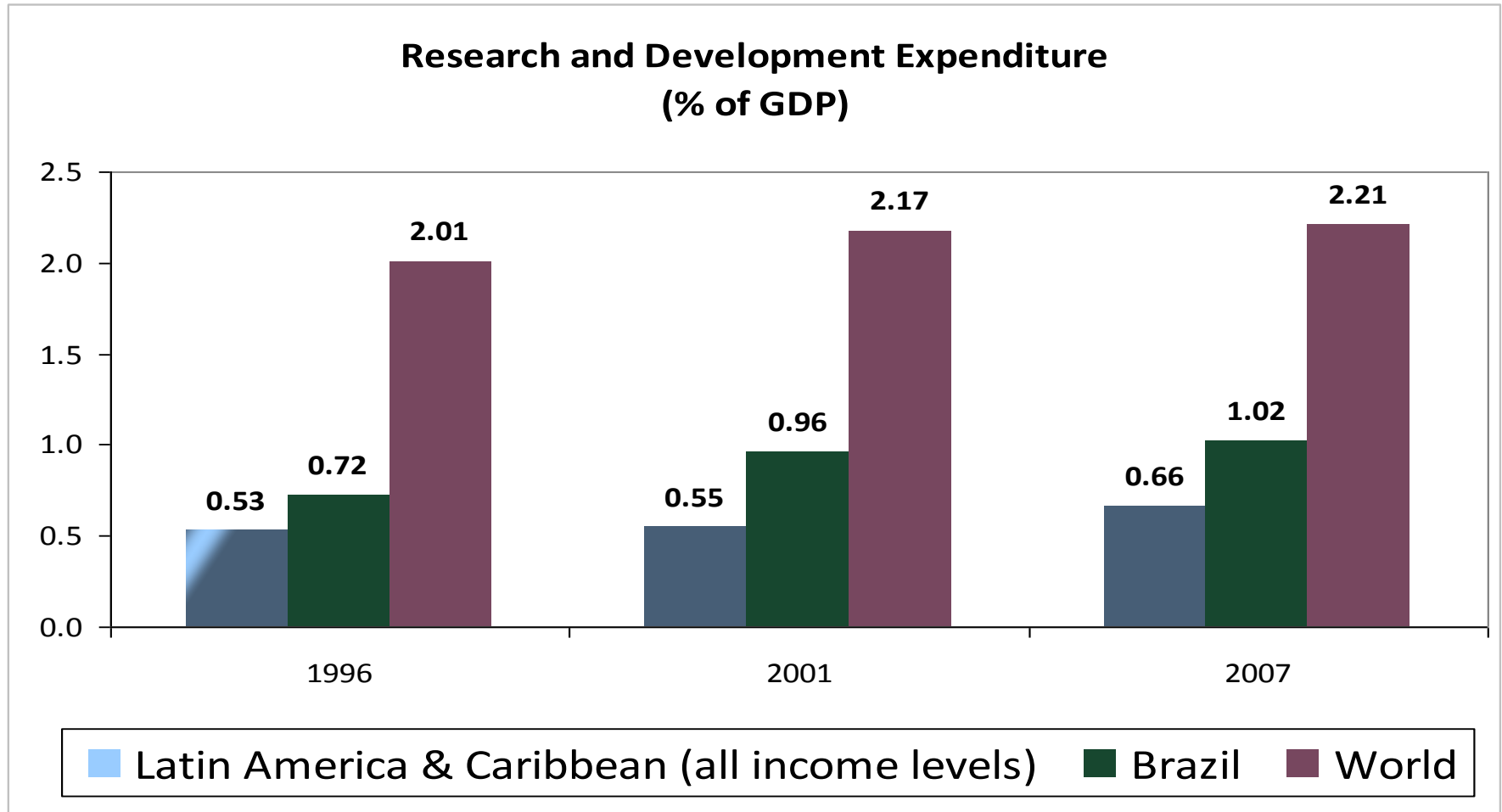
Based on Corporate Investment Plans - 13 sectors – Last Forecast – April 2010

Sample features:

- 10% of GDP
- 52% of Gross Fixed Capital Investment
- 60% of Manufacturing investments; 90% of Infrastructure investments

However, innovation efforts still have a long road ahead

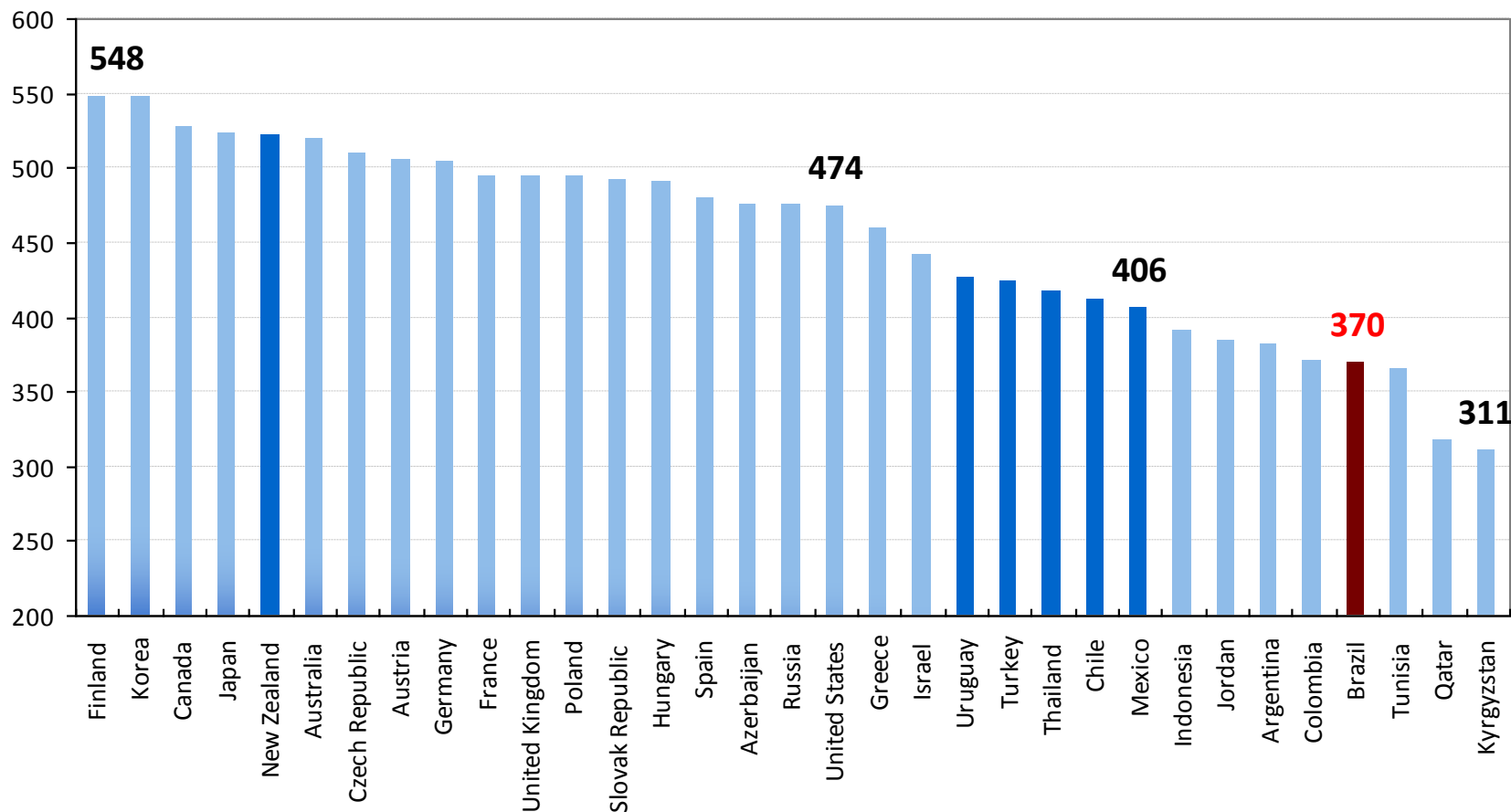
But private and public commitment is increasing and resources are being expanded



Education levels must be drastically improved



PISA TEST- Mathematics: Average score per country

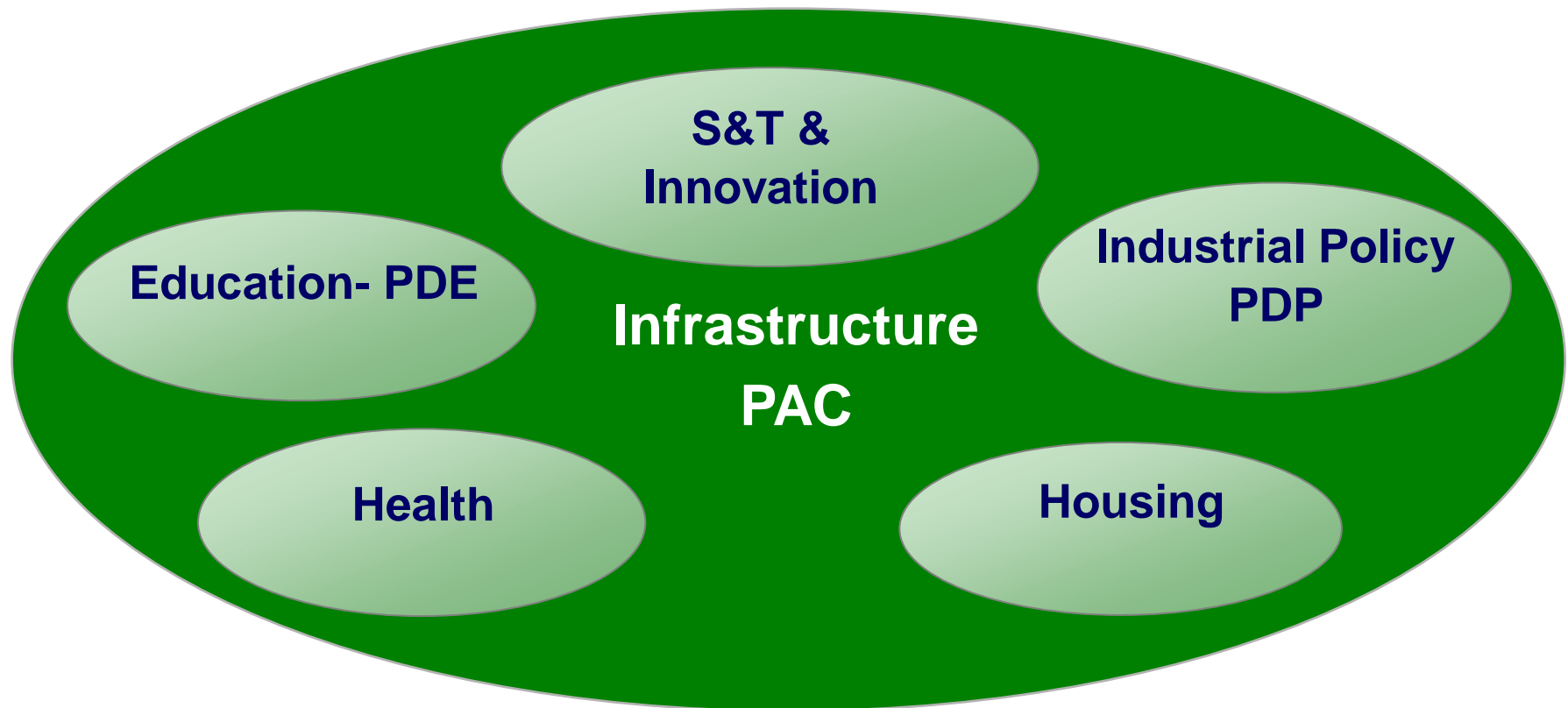


Countries are ranked in descending order of percentage of 15-year-olds at Levels 2, 3, 4, 5 and 6

Source: OECD PISA database 2006, Table 6.2a.

Development policies are in place and should become permanent policies

Development policies

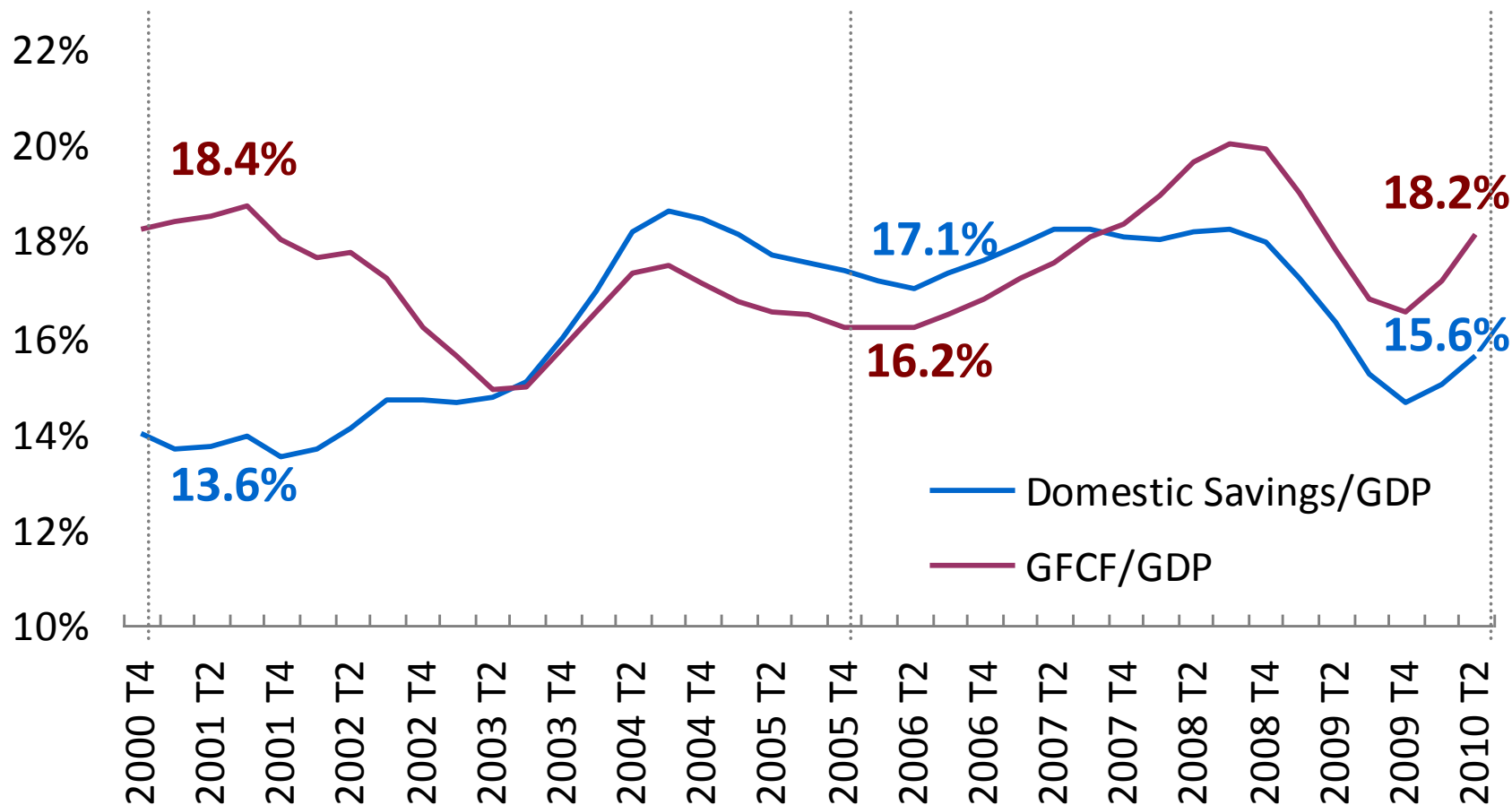


Policies that build up, expand or strengthen assets and capabilities

Savings and financing for the long term

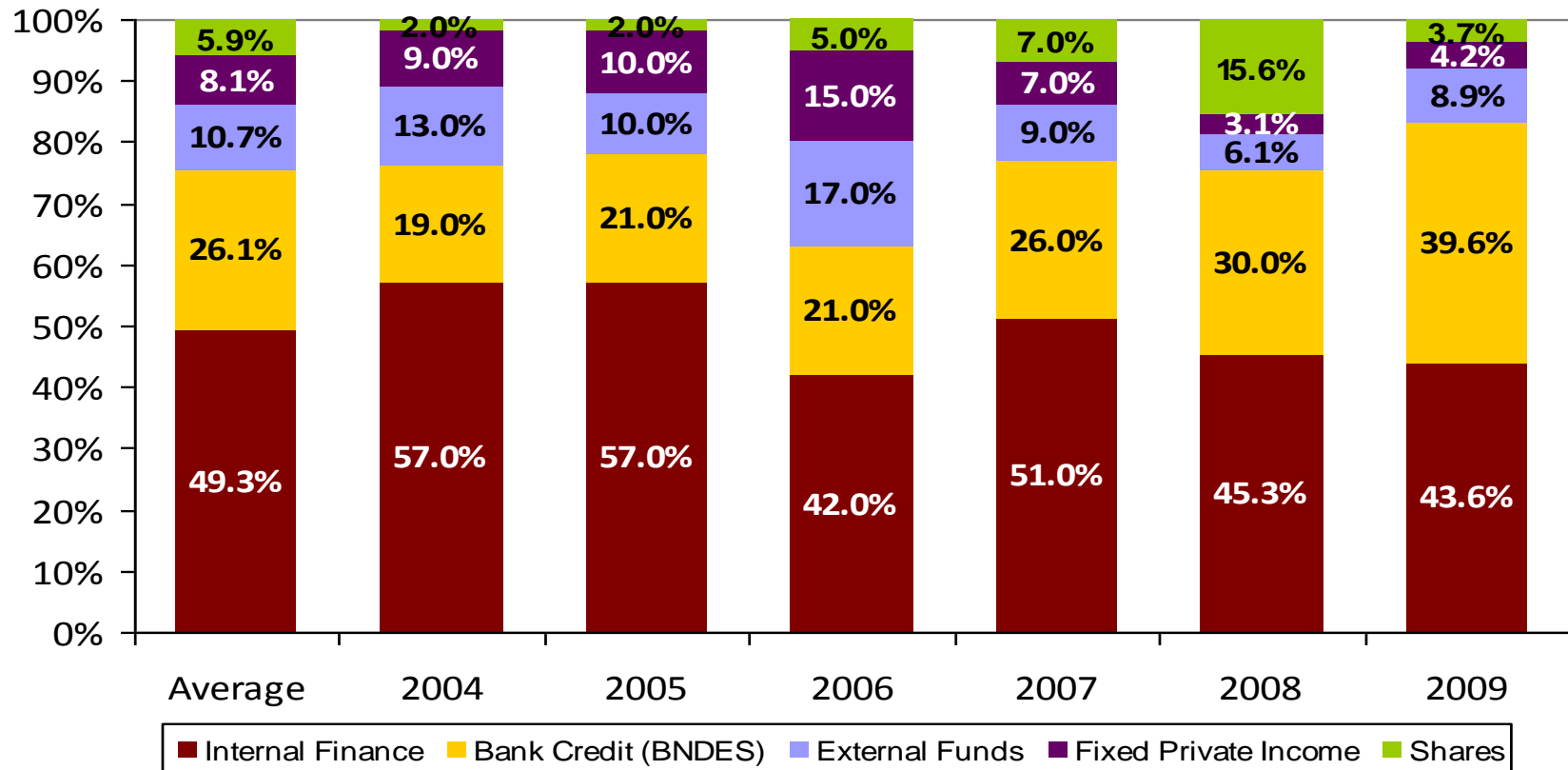
Investment and domestic savings as % of GDP

(values refer to 12-month period to date)



Sources of funding for investment must be expanded, strengthened and diversified

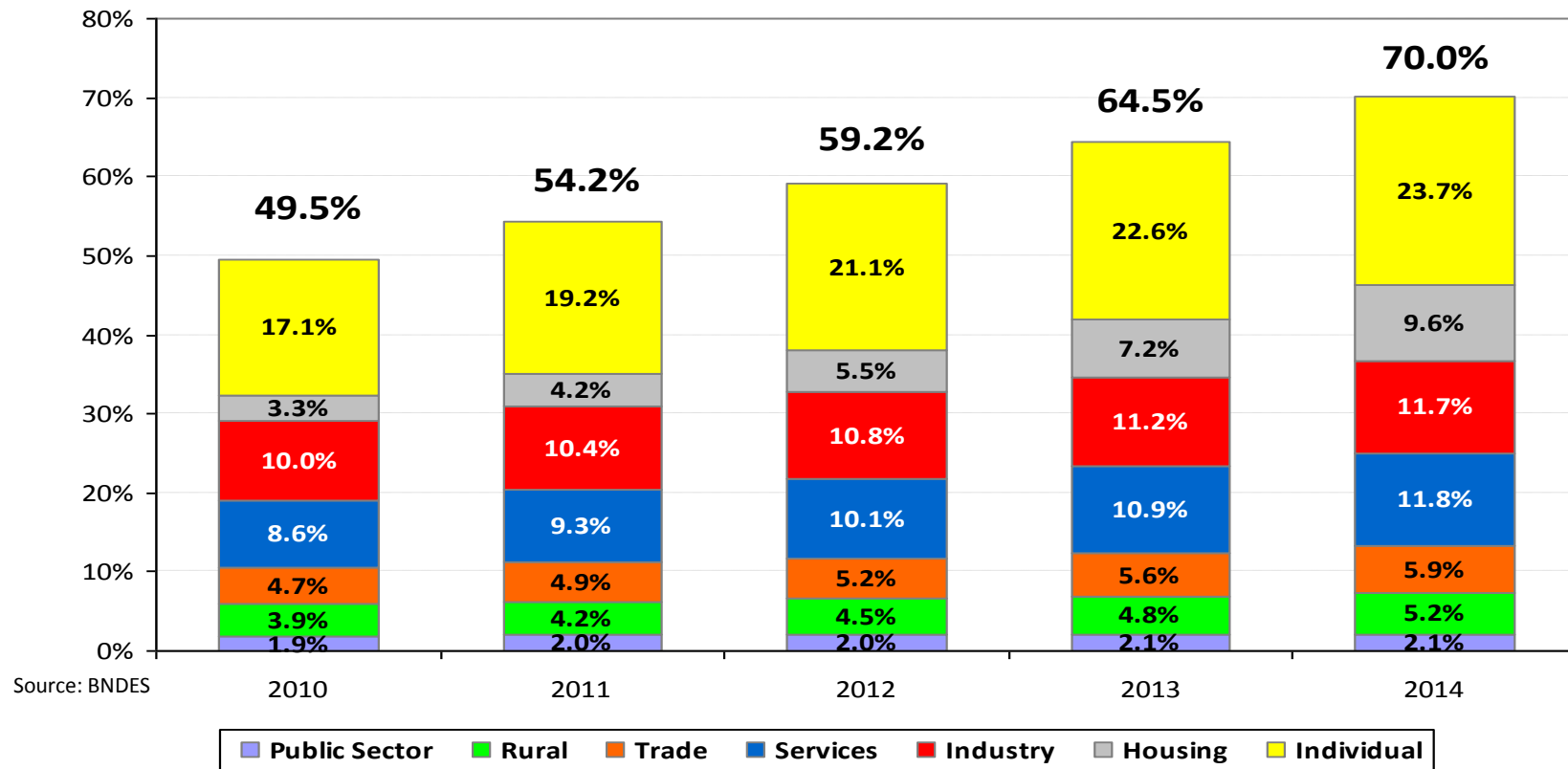
Financing sources for investments in Infrastructure and Industry (%)



**External funds may play a strategic role
in financing long term investments**

The prospects for the sustained expansion of credit are positive

BNDES' forecast for the 2010-2014 evolution of Credit/GDP ratio per sector (%)



Brazil should profit from the experience of the international financial services industry .

Concluding remarks

- ✓ Success in facing the international financial crisis
- ✓ Brazil may grow 5% p.a. over the next few years
- ✓ Foreign markets: through trade and investments, provide food, energy and resource security to partner nations
- ✓ Domestic market will lead growth:
 - ✓ Consumption: emerging middle class
 - ✓ Investment drivers: oil & gas, renewable energies, agribusinesses, logistics, large-scale events (World Cup, Olympic Games), housing

- ✓ **Macroeconomic policies:** Consolidate achievements by maintaining strong fundamentals and improving policies:
- ✓ **Development policies:** Permanent and effective public policies
- ✓ **Savings & financing:** efficiency in public expenditures as well as incentives for domestic savings (corporate, household) and for a long-term domestic market
- ✓ **Social:** more and better jobs; high-quality education
- ✓ **Infrastructure:** more and better projects; more complex financing/guarantee/insurance solutions
- ✓ **Industry:** innovation and competitiveness capabilities

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